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- Introduction to Swinging It: Major Differences in Swing vs. Day Trading

## ● Main Points:

- There are many differences in day vs. swing trading that are worthwhile to learn about. Each technique can be highly profitable *when used correctly*.
- **Our primary focus in this module on Swing Trading Strategies will be on technical analysis and winning trade management:** understanding how to scale in and out of trades, manage trade sizes and recognize high-probability chart patterns that are worth trading for profit. Not exotic detailed TA, but rather an expansion of the chart patterns that are not in most books that you can use to your trading advantage.
- The rules of each type of trading are vastly different; one of your keys to success will be to know when to exit vs. stay in the trade, and to not mix up your daytrading with swing trading efforts. Do Not hold on to a losing daytrade and say "well I guess I'm an investor/swing trader now"...**You must enter and exit each type of trade differently, using different rules. Remember this.**
- Throughout this module, you'll learn new ideas on how to work a trade to your favor, using appropriate risk management and entry/exit trading skills. Realize that unless you are extremely well-capitalized (eg you can tie up blocks of capital for extended amounts of time "til a stock comes back"), your risk and reward are higher for swing trading than for daytrading.
- Both your stops and profit expectations are much wider for swing than day trading; we'll learn how to work this to your advantage in later lessons.
- **If you are losing money daytrading, you can rebuild your confidence (and hopefully your trading capital) by scaling back to 100-200 share size swing trades,** "casting a wide net into the market" vs. the rifle/pinpoint style approach that is required for daytrading.
- Give yourself time to experiment with different styles of trading; many people make as much or more swing trading than they do in day trading; **both are perfectly valid styles of trading stocks.** It's up to you to try out new styles until you come up with the one that best matches your skills, profit/loss expectations, and money management results.
- In terms of your lifetime progress as a trader, I would begin as an **investor** (buy mutual funds etc, have a 6 month plus roundtrip trade time horizon), then move to **swing trading** (2 days to several weeks), and then finally, after you know the market fairly well, try **daytrading**. Then, use the techniques in Module 2 etc. for fast scalping profits as a maximum revenue technique. But, it's fine (and recommended) to stop at swing trading if that's where you make the most money at.
- Daytrading in the truest sense of the word is exceptionally difficult. The Module 1/2 content has gotten you started on many of the undocumented pro techniques and strategies that professional daytraders use, and we'll share much more in later modules, as market conditions and trading techniques change over time (eg moving to decimal trading this summer).
- For now, see the "major differences" table below. We'll add charts sometime soon at the bottom of the page. Think of swing trading like Volleyball, and Daytrading like Tennis/Racquetball. What are the differences?

## Swing Trading



VOLLEYBALL - slower, lobby/spike

vs.

## Daytrading



TENNIS - fast, quick exchange

**SWING TRADING DEFINED:** Trading stock for short-term holds, usually from overnight to 1-2 weeks maximum. My typical swing trade round trip is 3-5 days.

### TRADING STYLE:

**DAYTRADING DEFINED:** Daytrading can be one of several types: **Scalping daytrades** (300-1K shares) for 1/16th to 3/8 or so gains, rapid buying and selling, usually no longer than 5-10 minutes maximum. **Momentum daytrades:** trading a stock that's moving for anywhere from 5 minutes to 2-3 hours. **Swing daytrades:** Trying to buy the bottom and sell the top of

- Requires patience, lots of it
- For the occasional trader, who may enter and exit from 3-20 positions weekly.

#### DECISION CRITERIA:

- fundamentals and analysts ratings are important
- technical analysis of both short-term (5-10 day) and long-term (3-6 month) trend and volume patterns is useful
- look at the 20-day, 50-, 100- and 200-day moving average lines for your stocks to see where fund managers are likely to put their stops and buy programs.
- research and TA play an important role; we look at breakouts, channel plays and bottom bounces, as well as earnings release dates, the stock price's response to mergers/acquisitions, and other news.

#### TIME FRAME - ROUNDTrip:

- Since profit expectations are higher for swing trades, most swing traders stay in their positions from several days to several weeks before exiting.
- We try to enter at the low of the day, so entries are usually at one of three places: the start of the day, sometime over lunch where the stock has sold off, or at the end of the day if there is a price breakdown to a multi-day support level.

You can also enter near the end of the day if it's a high-of-day to play the anticipated morning gap up, though this is more an "overnight hold play" vs. a swing trade.

#### STOPS & RISK MANAGEMENT:

- Stops are much much wider in swing trading; and your profit objective is larger.
- For oversold stocks, you should look at a 6-month or 12-month chart at first, then a 5- or 10-day chart, to get a feel for the trading range. Then the 20/50/100/200MAs.
- Stops for swing trades can be as high as 5-10% (but no higher), eg if I bought WMT for a swing trade at 50 I would let it go down to about 45 max (10%), before stopping out.

a stock during the day, may hold for several hours and sell near 3:30-4pm.

#### TRADING STYLE:

- Requires fast decision-making ability
- For the active trader who wants to trade a minimum of 3-5 trades daily, if there is a good trade to play. Many professional daytraders may do from 50-300 scalping trades each day.

#### DECISION CRITERIA:

- what's an analyst? who cares about fundamentals? what's in motion now?
- technical indicators are more momentum based; including stochastics, volume, and intraday support/resistance levels
- research is more on stocks that are trading on higher-than average volume or are responding to news, earnings, or other momentum-driving events

#### TIME FRAME - ROUNDTrip:

- Daytrading roundtrips are typically less than 20 minutes in and out, and may last up to a maximum of the full trading day (unusual).
- Since prices tend to weaken over lunch, most daytraders will play for a morning momentum run (in and out multiple times from premarket through 11:30ish), close out before 12:00, and perhaps play the breakouts or breakdowns during the last two hours of the day, from 2pm-4pm.

#### STOPS & RISK MANAGEMENT:

-Daytrading stops are never more than 1/2 point or so, depending on the stock price, and usually we'll use from 1-3 spreads as our stops.

For less expensive stocks, eg \$12-\$40/share, our profit objective is small, eg 1/4s to 5/8s, maybe up to 1 1/2 points.

Percentage-wise, that means we limit our losses to about 1-2%, and shoot for a 3-5% win rate...the ratio should be 3:1 or 4:1

- We will look at chart patterns for many swing trades throughout this module, to acquaint you with trading opportunities as they arise.

- Unlike many books, I do believe that averaging down can be okay for *some* swing trades in *highly-rated* stocks (only!) that are oversold for *certain* chart patterns (only!); we'll look at some of these later.

- The "reverse pyramiding" approach may be ok here, eg buy 100 at 50, add 200 at 48, add 300 more at 46 (total average position price now at 47). Lets say it consolidates at 45-46, then heads back up, your stop is at 45; in 8 days we're at 49 7/8, you sell the whole lot for a \$1200 profit, or hold another couple of weeks and sell at 52 for a bigger profit etc... There are more "don't's" in this approach than "do's", we'll look at how to manage this correctly in a later module.

- In general, I prefer to bottom fish over buying breakouts for swing trades, I haven't lost on a swing trade I've made in over a year, but this is a matter of personal preference. Bottom fishing in a "channel", eg SPLS from 21-25 is safer than bottom fishing in a stock that has no bottom (like the retailers lately, S ANN BEBE ROST, though they may be ok for position plays).

In bottom fishing swing trades, as in daytrades, you must see a volume reversal, showing real buyers are back (not just short covers, which will give a short pop, then continued selling).

#### SHARE SIZES:

- I tend to keep a swing portfolio of smaller share sizes for stocks, usually just from 100-300 shares in each of from 2-6 stocks I'm holding. My current swing trades: DBCC HAS CCL VISX AOR YUM JBX SPLS (3/4/00).

Have a basket of several stocks, then sell when you get at least a couple of points/10%+ out of the trade.

MORE TO COME ON THIS PAGE

...stay tuned

wins/losses. "Small Stops are King" in daytrading.

#### SHARE SIZES:

-For scalping, you tend to need to trade from 300-1K shares at a time to make good money. Of course, this also depends on the share price and volatility.

I've made good money trading 50- or 100-share lots of DCLK, for example, to get from 4 to 7 points on it. Typically, though, I'll daytrade in blocks of 300-500 shares for stocks priced at from \$12 - \$60.

**Note:** if you are not a decisive person who can get in and out of trades quickly, then try swing trading small shares for awhile (100-300 shares). Many new daytraders "blow out" their accounts by overtrading in Level 2 without knowing the market's rhythm and pace.

Swing trades force you to do research, understand the unpredictability of the market, and learn the fundamentals you need before trying to daytrade. Use "Investors' Business Daily" to help decide the relative value and strength of the stocks you want to swing trade, eg 80/80+ rated stocks.

## Module Four

## Swing Trading Strategies

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MODULE 4

- Avoiding low-percentage swing trades and bad investment risks

### ● Main Points:

- Unlike daytrading, in which Time & Sales, momentum and Level 2 are important trade tools, **swingtrading is much more dependent on proper technical chart analysis**
- This lesson will share some tips for avoiding dangerous situations in your swing trades: I will show some **chart patterns to avoid** for entering swing trades. Like the lesson in an earlier module says, we are looking for high-percentage trades, **not poor trades and not "indeterminate"/uncertain trades.**
- You should use chart patterns heavily in daytrading as well, of course, but **in Swing Trading 90% of the reason I get into the trade is because of a chart pattern that looks good to me** (not a news event, the momentum in Time and Sales, anything to do with market makers, etc.). We'll look at swing trading chart patterns and technical analysis in a few lessons forward from here.
- Also important in swing trading is **analysts ratings**, eg buying highly-rated (eg profitable, good earnings) stocks that are getting stronger, or when they are oversold. Remember we don't care at all about analysts ratings in our daytrading activities, that's solely momentum-driven. I may swing trade a stock like WMT that doesn't have good analysts ratings, though, if the chart pattern is good.
- **A good rule of thumb I like to use is to avoid swing trading stocks with an analyst rating over 2.0 and give preference to stocks with analysts ratings of 1.6 or better.** Ratings of 1.6 to 2.0 are "just ok". That's not to say you can't make money swing trading all stocks, but I like to stack the odds in my favor; having highly-rated stocks is helpful.
- From a chart standpoint, you also want to **avoid swing trading stocks that have been in a steady downtrend** for more than 5-10 days in a row. **Bottom fishing is best done on sharp drops** that get buyers' attention, not on stocks whose price has slowly eroded over time. More on this in a later lesson on swing trading chart patterns. **Bottom fishing is also done on stocks that tend to trade in a "channel"** with established support and resistance levels (ex: SPLS HET ROST SSCC)
- Buy Jack Schwager's "[Getting Started in Technical Analysis](#)" (only \$15), super starting TA book.

## Positive Signals for Entering Swing Trades:

**Chart patterns:** breakouts from consolidations, trading a channel off support/resistance, bottom bounces. See below for examples.

**Delayed reaction to good news:** buy stocks that show a steady uptrend and follow-through of several days based on good news or earnings that were released.

**Volume Reversals:** if you see buying volume at what appears to be a reversal point for the stock, get in as soon as possible and ride it up for a few days (eg YUM ROST ANN Mar 17, 2000).

**Post-earnings gap downs:** if a stock gaps down on decent earnings, it may have buyers over the following days or weeks (eg XRX UIS CCL).

**Positive analysts ratings:** oversold stocks (eg bouncing off a 52-week low or other key support level) that are highly-rated (1.5 or better) can be profitable plays as well.

Make sure to plot the **20-50-100- and 200-day moving average lines** for all 90-day to 12-month long term charts you look at for swing trade stocks. Example: plot these lines for QCOM DCLK WMT CIEN at bigcharts.com or on your chart software.

Stocks frequently get buyers when the stock bounces off one of these key support lines, **especially the 200-day moving average line.**

These are what fund managers with capital frequently use to help assess stock entry and exit points. You should, too - they control the money flow. Be particularly keen on patterns where you see blocks in Time and Sales go off right above a 200MA bounce, for either a momentum daytrade or swing trade.

In addition to chart TA, be sure to know your stocks' ratings before buying it; I frequently buy stocks like HRL HET SPLS DCLK that have good ratings and avoid poorly rated stocks for swing trades. Get ratings at these two links: [ZDFinancial](http://ZDFinancial) and [Zacks/BigCharts](http://Zacks/BigCharts). Below are some examples.

## Good Analyst's Ratings:

Examples: AOL, DBCC, SPLS: I trade these actively

| Number of brokers recommending as: | Average Recommendation (strong buy) 1.00 - 5.00 (strong sell) |
|------------------------------------|---------------------------------------------------------------|
| Strong Buy                         | 25                                                            |
| Moderate Buy                       | 15                                                            |
| Buy                                | 3                                                             |
| Hold                               | 0                                                             |
| Moderate Sell                      | 0                                                             |
| Sell                               | 0                                                             |
| Strong Sell                        | 0                                                             |
| This Week 1.43                     |                                                               |
| Last Week 1.43                     |                                                               |
| Change 0                           |                                                               |

## What to AVOID in Entering Swing Trades:

If the stock has **lost a key support level** do not enter (or stay in a current trade), wait for buyers to come back through this support level before buying

If the stock pattern is **"indeterminate"** don't guess, wait for a high-percentage play to present itself. Don't be like the guy in the "My sources say no"-commercial

If **volume** is lighter than average for the stock, stay out of the trade. Note, however, that in choosing stocks for swing trading you **can expand your stock picks** to include lower-volume stocks (down to 200K average daily volume, as intraday liquidity isn't as important as it is for daytrading).

If the stock has **poor analysts ratings** you should be cautious about buying it for a swing trade unless strong buying momentum exists.

If the **chart pattern** doesn't show you a clear direction that you feel comfortable with, don't buy the stock. Again, "make it break through" a key resistance level before buying.

**Don't swing trade just 1-2 stocks at a time**, diversify much more than you do for daytrading. My swing trading account has anywhere from 4-10 stocks in at a given time, I wait for one of them to pop up to give me a good profit, at which point I sell it and reinvest in another play.

Don't buy **overextended stocks** that have run up a lot for swing trades unless you're very careful, eg CORL NOVL CEGE GENE all fell 30-40% in a matter of weeks off recent highs.

Also, it is generally not a good idea to hold through **earnings releases**, as stocks will frequently gap down.

## Poor Analyst's Ratings:

Examples: ETYS, BA: I usually don't trade these

| Analyst Ratings BOEING CO          |                                                               |
|------------------------------------|---------------------------------------------------------------|
| Next Earnings (Approx): 1/20/00    |                                                               |
| Number of brokers recommending as: | Average Recommendation (strong buy) 1.00 - 5.00 (strong sell) |
| Strong Buy                         | 1                                                             |
| Moderate Buy                       | 9                                                             |
| Hold                               | 13                                                            |
| Moderate Sell                      | 0                                                             |
| Strong Sell                        | 0                                                             |
| This Week 2.46                     |                                                               |
| Last Week 2.63                     |                                                               |
| Change 0.17                        |                                                               |

| Number of brokers recommending as: |   | Average Recommendation (strong buy) 1.00 - 5.00 (strong sell) |
|------------------------------------|---|---------------------------------------------------------------|
| Strong Buy                         | 2 |                                                               |
| Moderate Buy                       | 0 | This Week 1.00                                                |
| Hold                               | 0 | Last Week 1.00                                                |
| Moderate Sell                      | 0 | Change 0                                                      |
| Strong Sell                        | 0 |                                                               |

| Number of brokers recommending as: |   | Average Recommendation (strong buy) 1.00 - 5.00 (strong sell) |
|------------------------------------|---|---------------------------------------------------------------|
| Strong Buy                         | 9 |                                                               |
| Moderate Buy                       | 7 | This Week 1.79                                                |
| Hold                               | 5 | Last Week 1.73                                                |
| Moderate Sell                      | 0 | Change -0.06                                                  |
| Strong Sell                        | 0 |                                                               |

#### Analyst Ratings ET0Y'S INC

Next Earnings (Approx.): 4/28/00

| Number of brokers recommending as: |   | Average Recommendation (strong buy) 1.00 - 5.00 (strong sell) |
|------------------------------------|---|---------------------------------------------------------------|
| Strong Buy                         | 1 |                                                               |
| Moderate Buy                       | 6 | This Week 2.36                                                |
| Hold                               | 7 | Last Week 2.38                                                |
| Moderate Sell                      | 0 | Change 0.02                                                   |
| Strong Sell                        | 0 |                                                               |

Why care about ratings if you're not a long term investor? I like to look at the money flow on the street, it tends to flow into highly-rated stocks that people are comfortable with.

Your odds are better of getting buying behavior for highly-rated stocks during the time you're in a swing trade than for poorly rated stocks, in my experience. Money tends to rotate into well-liked stocks, as a swing trader you want to capitalize on this price momentum. Of course, analysts ratings are frequently uncorrelated with price movement, so **you need to use chart technical analysis as your primary indicator**, ratings as a secondary. Get [bigeasyinvestor.com](http://bigeasyinvestor.com) (free) for good swing trade research and screening.

#### Examples:

##### Good (High-Percentage) Chart Patterns:

##### Poor Chart Patterns:

We will have detailed looks at these and other charts in later lessons, for now I just want you to **familiarize yourself with some of the types of swing trading patterns to be on the lookout for**. Left column = good chart patterns to trade, the right column = don't trade these. These are all **10-day** charts.



**Steady uptrend on volume**; ok to buy on pullbacks



**Spike buying pattern**, don't buy after it's ran up, "if you missed it you were too late", don't chase. Common chatroom pump n dump pattern to avoid.



**Bottom bounce off oversold condition** for no good reason, buy after the bottom levels out for awhile in consolidation pattern.



**Indeterminate pattern**: ATHM is not telling us much here...you might want to try and play the channel, buying at 27 support, but it's a relatively "low-percentage" pattern.





**Buying off key support levels:** I had sold at the top (to the left, at 9 5/8), I bought again at what I think is a bottom at 8 1/4 (on the right, 8 days later), see volume at the far left and far right, these are support/resistance levels for DBCC (check with a 6-month chart). Below is a sample trade confirmation from March 8th.

**Making \$1156 on 3-day swing trades --> Close P&L \$ 1156.25**

Orders Exec Trades Opens Alerts Stats None

| Stock | Bought   | Shar... | Sold     | +/-     | P&L    |
|-------|----------|---------|----------|---------|--------|
| DBCC  | 8 11/128 | 700     | 9 5/8    | +97/128 | 531.25 |
| DBCC  | 8 3/8    | 300     | 9 5/8    | +1 1/4  | 375.00 |
| HET   | 19 11/16 | 200     | 20 11/16 | +1      | 200.00 |
| MRK   | 54 3/4   | 100     | 55 1/4   | +1/2    | 50.00  |



**Buying at a consolidation point** this is risky bottom, fishing, we've had a selloff in GENE from 75 down to 30, at which point you see a lot of shares changing hands for several days with no price movement. I'd buy at 30 here and put in a stop right under the consolidation level (say at 29 1/2 or so). The heavy volume at 30 is what makes this one "ok to play", using a closer-than-normal stop.



**Buying a cup-and-handle breakout:** these are usually a safe breakthrough play; in this case I was in at the bottom (18 5/8) since I play SPLS for a living, sold at the 23 top; a good trade entry would be on the breakout above 20 resistance and sell at 23. Since everyone knows them, though, expect selling shortly after the breakout.

Volume and price action is not telling me anything, and besides the retracements are pretty sharp, I'd probably get shaken out. I don't play until it breaks through 30.



**Cup and handle:** well, if you weren't in from the bottom on this CL run, it's too late to enter now. I'd put it on the watchlist and buy only if it breaks through 55 on decent volume in the morning or late afternoon, for example. I wouldn't initiate a new position yet.



HLTH not too healthy here: Now, it's still in a **steady downtrend**, so a swing play might be risky on the way down. The heavy recent volume is a bullish indicator, though, so it's on my watchlist, make it break through a previous resistance level (eg 40) before buying. Don't catch a falling knife, you might get a bounce on the way down but it could have a ways further. Eg I recently got faked out by CCL, thought 32 was a bottom, actually it's 22. Missed it.



In a **tight range**: These are great for daytrading plays, but not for swing trades, your risk/reward ratio isn't good enough to buy when the stock is chopping around like ORCL is here. Buy only if you see a heavy volume breakout above the current resistance level at about 85.

*Watch for additional Module 4 lessons on chart patterns and technical analysis.*

- Choosing the Best Stocks for Swing Trading

### ● Main Points:

- Review our brief guidelines for "how to choose the best stocks for daytrading" first at [this link from Module 1](#).
- This lesson will help you look figure out what types of stocks make good candidates for swing trading. Again, swing trading is defined as trading smaller shares (100-300 is the number I use most often, may go as high as 1000, but not often), over an expected trading timeframe of from 2 days to several weeks.
- **For swing trades, I tend to "bottom fish" more than I do buy breakouts**, although breakouts are fine as well, especially candidates for overnight gaps up on good news or other buying momentum.
- We look for chart patterns, and to a lesser extent, pre-earnings release momentum, analysts ratings and news, to help decide whether or not to enter a position. Charts rule in TA.
- **It takes practice to learn swing trading TA, expect to spend at least 6 months or so before the patterns start to become 'second nature' to you, and for you to be able to trade profitably consistently.**
- Trading is not easy money. Anyone who tells you otherwise is trying to sell you something. Stock picking sites are a bit more valuable for swing trading than for daytrading, but I'd still advise you to do your own research and learning.

- There are 3 general types of swing trades to enter:

1. Buying towards the **lower 1/3 of a 'trading channel'**
  2. Buying a **"bottom bounce"** for oversold stocks
  3. Buying a **breakout above a key resistance** level.
- Learning to trade these three profitably is how to make good daily money on swing trades. Note I made close to a thousand dollars on 100-300 share trades held less than a few days each on Fri. Apr 7 (IMGX/CHR overnight holds):

Making \$882 on longs Fri 4/7/2000: \$ 882.81

| Orders | Exec     | Trades  | Opens   | Alerts   | Stats  | None |
|--------|----------|---------|---------|----------|--------|------|
| Stock  | Bought   | Shar... | Sold    | +/-      | P&L    |      |
| CHTR   | 14 1/2   | 100     | 15 1/2  | +1       | 100.00 |      |
| IMGX   | 12 33/64 | 300     | 14 1/2  | +1 63/64 | 595.31 |      |
| WOMN   | 5        | 200     | 5 15/16 | + 15/16  | 187.50 |      |

Swing trades should be held with the expectation of making at least 10% profit within a 2-20 day trading cycle.

## Choosing the Right Stocks to Swing Trade:

*This section will help you learn how to screen for the best types of stocks to swing trade: what price level? what to look for on a chart? when to buy vs sell vs wait?*

### FUNNEL SCAN: 1-YR, 10-day, Intraday Charts

We first introduced you to this concept back in Module 1 - do you remember how it works?

Your stock scanning must start with the big picture of the stock's ratings, price movement, trading range and overall 1-yr trend. This is the widest part of the funnel. Then we drill down and look more closely at the specific support/resistance areas for the most recent 10 days of trading, along with volume patterns before buying.

In daytrading, we look at market (\$compq/string), 10-day, then sector (\$gin, \$sox), then intraday charts, followed by T&S, finally using level 2 to time our entries and exits.

In swing trading, we start by looking at the analysts' recommendations (must be <1.8), volume patterns, 1-year chart and it's 200MA, 100MA, 50MA, trend and support/resistance lines. As long as I buy the stock somewhere in the lowest 1/3 of the day's trading range I'm happy. Or, if I buy a strong stock that's breaking out above a key resistance level that's great too.

Swing trading is much more approximate than daytrading is. My swing trading stops are often determined by the prior 2-3 month support level.

If I'm swingtrading, I may well let a \$24 stock go all the way down to \$19 3/4 before a stop is taken...it depends on how many shares you're trading and for what time horizon. Of course if I were daytrading this same \$24 stock my stops would be no more than 3/8 of a point, more likely just 2-3 spreads.

The point? Swing trading has a wider 'margin of error', and requires more patience. Worst case, you may have to wait almost an entire quarter (3 months, 60 trading days!) before a healthy profit is available (eg ORCL last summer, CCL now). I generally prefer to hold only 2-10 days max however, as I do not want to tie up capital waiting for a stock to come back'.

**Your scan should accomplish one main objective:** to narrow your list of trading stocks to a small handful with the highest potential for price improvement in the near term. It's like planting seeds, you buy 100-300 shares of a handful of stocks and take the profit from each one as it 'sprouts' and the price has gone up over 10%.



## Examples:

Let's look at IMGX. (by the way, I don't even know what the name of the company is or what they do, or who their competitors are, and I never will. I buy and sell based on chart patterns. I know earnings release/ratings for the stock, that's it.)

All I know is, they IPO'd about 6 months ago, have strong analysts ratings (1.7) and recently dropped back to retest the low of the trading range, so I'm a bit interested:

**IMGX 6-month chart: 6 month trading range 8 1/2 - 46**

Usually, you want to look at the 1-year chart and plot the 50MA 100MA and 200MA lines on it. See the DCLK example below for more on why. This stock IPO'd 6 months ago, so that's all the data we have to work with.

You can anticipate that buyers will look to get in if the stock retests it's previous major low, which was around 10. Sure enough, that's exactly where this stock bounced. So, you want to enter early and ride it up. I would expect IMGX to trade up into the high teens over the next several months. I could be wrong, but I'm probably right.

Now let's look at the 10-day chart, to look at what the other traders have been doing with this stock lately. Avoid stocks that have had no buying interest at all, of course.



**IMGX 10-day chart: The MOST IMPORTANT ONE in Swing Trading. Support at 10, resistance at 25, volume reversal 10-12:**

After checking the 1-year chart to determine major support/resistance and trend line, we focus in on the 10-day chart to look for volume patterns and bounces.

Here I've annotated this chart for you...IMGX was a short when it lost 20 support, a cover/buy long off 10-12 support. We bought at 12 1/2 and sold 2 days later at 14 1/2 for a healthy 16% profit. Our stop was at 9 7/8; we would've sold it had it dropped this low and waited for it to regain 10 1/4 before buying it back.

All these swing trades are watched realtime, with alerts, to help us squeeze the most profit possible out of each trade.

Let's look at the final chart in our arsenal, the intraday chart. I didn't use level 2 or time and sales to manage this winning swing trade; that level of precision isn't needed when your trading range spans several days or more. You want to roughly enter and exit with a 8-10% profit, not scalp fractions.



**IMGX 1-day/intraday chart:** Ok, now I sold at 14 1/2 (the 2nd top), which was correct, on this gap up. Remember to SELL GAPS UP on the OPEN and BUY GAPS DOWN on the open. I'll be watching IMGX to play it again on Monday April 10.

This stock closed the day prior at around 13. It gapped all the way up to 13 7/8 on the open and continued clear up to 15 before being sold off. Instead of taking the first profit (which would've been fine), we waited to see if it would make a higher high.

It didn't, so we sold shortly after the next top, at 14 1/2. This was the right decision, as the stock retraced back down to 13 at the end of the day.

The play on the day following this pattern? If it drops down to 12-13 and starts to sell then wait for it to get back above 13, if it gaps up to 14-14 1/2 I'd still wait for it to push above 15 1/4 before buying back, if it's up on volume and moving before 10am.

The swing trade's goal is to buy relatively low on one day and sell higher on another day. That's it.



## ILLUSTRATED TIPS FOR SWING TRADES: CHOOSING THE RIGHT STOCKS

### Drawdown for Swings

- Decide where you will take a stop loss at, based on a prior support level, before entering a swing trade. Play one step ahead of the game, knowing that the mm's/specialists will try to take out stops at the "obvious" areas...choose something slightly different.
- In selecting stocks to swing trade, make sure you're not buying overbought expensive stocks that have had a huge runup in the last couple of months. Focus on buying towards the bottom of a trading range, as a stock is "starting to come back". Or, buy early in a breakout on good news/earnings. Just don't be the "bagholder" who paid more than everyone else did.

### Bottom Fishing - How Deep?

- There's a difference between correctly 'nailing the bottom' and 'catching a falling knife'.
- Frequently, the first round of buying isn't strong enough to sustain the stock, and it will continue to sell off. A good example is CCL, I bought at 33, it lost 30 and continued all the way down to 22! Or WMT, I bought at 53, it went on down to 43! Before bouncing.
- So, make sure to set stops if the market proves you wrong and they continue selling it off. Usually, it's a good idea to buy a bounce off a bottom, using the previous bottom as a stop loss point.

### Overreactions?

Overreactions to news/earnings can provide profitable swing trade opportunities too.

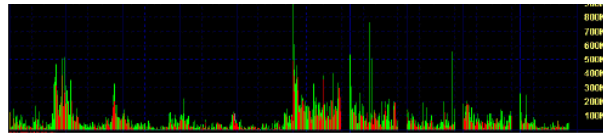
Here's a recent 10-day chart of LGTO. LGTO's stock got cut in half - 56%! Apr 3 after revealing it would have to restate 1999 earnings due to misreporting by its sales staff.

As you can see, the first drop, to 22, wasn't the real bottom, that happened one day later, when it dropped to 16. I think 56% is a bit much to drop the stock, and that a retracement of 15-20% is highly likely over the next 2 months. Sure enough, it's climbing back up out of the pit.

It will have a tough time over the next few weeks but a drop this sharp (like PGs), seems a bit much. I could be wrong,



this sharp (like PGs), seems a bit much. I could be wrong, it could go lower, but this looks like a bottom consolidation area to me. If I were to take another long position down here, which I might, on an up day, the stop would be set at 19 3/4.



## Major Trend

Is "the trend your friend"? Well, maybe, if you buy strong stocks on pullbacks. Overall, though, trends have seemed to whipsaw strongly during the first part of 2000 and volatility seems to be the name of the game. So, Buy Reversals and Pivot points is more profitable.

Let's look at this 1-year chart of DCLK. We have plotted the 200-day MA (white), the 100MA (orange) and the 50-day MA (yellow). Why care about these numbers? Weeelllll, an interesting thing here, you see, DCLK has never lost it's 200 MA, and unlike QCOM/JDSU it's not trading at a multiple of its 200MA either.

**The 200MA is a key support line for all stocks.** Why? Fund managers and other institutional traders watch the 200MA for support/resistance. This tells us DCLK is almost certainly a BUY at 75-80, it's 200MA, with a stop loss at 70ish.

The 100MA-200MA spread is often a trading range, so you can look to exit the position before it touches the 100MA (or possible 50MA) line.



## Volatility

Volatility is wonderful - it's how I make my living. The key is to be on the right side of the volatility.

Here's a nice 10-day chart swing to trade: YUM. That's Taco Bell/Pizza Hit/KFC... nice to eat there too. I like to snack at the YUM chart often; you can see that it's usually a buy right above 30 and usually a sell at 31 1/2- 32 recently.

For fast-food stocks, I like to trade YUM PZZA JBX OSSI.

Capitalizing on volatility in stocks like this is a goldmine, look how much it swings over a 10-day period. You can see every time it touches 32 people look to sell it. All of the food stocks are oversold down here (April 2000) and I would be a long-term buyer of all of them. Same thing with many retailers, such as ROST WMT TGT ANN etc.



- Risk Management for Swing Trades Part 1: Managing Time in the Trade vs Optimum Share Sizes

## ● Main Points:

- In managing your risk for short-term swing trading, (several days to weeks), it is advisable to look at three main variables you will manage for the trade:
  1. **Number of shares** you will trade
  2. The **length of time** you expect to hold the stock
  3. The **support/resistance areas** you will use to determine stops and exit prices
- This lesson will focus on the first two of the three areas, we'll cover support/resistance in the TA lessons later in the module.
- In general, I find it useful to swing trade no more than 300 shares of any one stock, with a rare exception of cheap (under \$15) equities. Why? You want to limit your risk. Also, I often swing trade as little as 50 shares of expensive 'net or semi stocks, between \$60-\$120/share, for 5- to 8-point profits over a several-day to week time horizon..
- You should also have what I call a **"time stop"** on the trade as well - if you're tying up capital in a stock that's slightly down or choppy for longer than 2-3 weeks then consider taking the small loss and buying a different stock...you're losing the profit potential you could gain by rotating the capital into a better performing stock. If you're wrong, get out and try again with a different stock.
- From a risk management standpoint, you want to **limit your exposure in both share size and time wasted** waiting for the stock to go up.
- **A tradeoff can be made between the number of shares traded and the length of time in the trade:** it's generally better to add in smaller increments to your winners than it is to average down on losers. Example: You buy 200 shares of DELL at 44 one day, you see 2 days later it's up to 46, you might add another 100 shares, and sell all 300 4 days later at 48. Add in small increments to your winning swing trades, do not add in larger increments (eg doubling the position).
- Also, if you must average down, do so with a larger position on the bottom, using stops, to weight your position more heavily at the lowest price possible. In general, we avoid averaging down, or "throwing good money after bad", the only time you should average down is when the stock is rebounding on volume off a true support level, then you should add a larger position off this confirmed bottom (using a stop at the previous support level). Again, this is technically an independent trade, which is (hopefully) a better one than your original position, which was taken too high.

## Managing Risk in Swing Trades: Time vs. Number of Shares

### Number of Shares to Swing Trade

"How many shares should I buy?"

#### Swing trade examples:



Remember, your risk:reward ratio is higher for swing trades, so you should buy less shares than you would for a daytrade.

Overnight holds may get a gap down on bad news. The reverse can happen too, of course, you can profit from a gap up on good news. But, we want to be overly cautious when we trade. The key is to limit your risk in as many ways possible, one way is to trade less shares, from 50-300 shares.

As you'll see in the next lesson, one way to maximize your leverage is to swing trade a number of stocks at the same time. I do this, I will be long in from 3 to 16 positions simultaneously, and sell whenever one 'pops up' past my profit target.

It takes a bit longer than a daytrade of course, since I'm trading fewer shares each time. Typically I'll buy a handful of good quality stocks in 100-200 share increments that are

200 shares of a \$22 stock that goes up  
1 1/2 points in 1 week = \$350 profit

400 shares of a \$11 stock that goes up  
7/8 points in 2 weeks = \$348 profit

100 shares of a \$41 stock that goes up  
2 5/8 points in 4 days = \$262 profit

50 shares of a \$68 stock that goes up  
6 1/4 points in 3 weeks = \$425 profit

If you're sitting in a half-dozen or so positions and take these types of profits 1-3 times every day you can also make great money trading the market.

bouncing off a bottom, or breaking out above a previous trading range.

Like the fish, you are slowly swimming along, scooping up daily profits, which add up nicely over the course of a month.

*Managing risk with smaller share sizes: as always, you still need to identify stops ahead of time and stick to them. You can always buy the stock back later if it goes up through your stop area. Your stops will be wider (3-5%) than they are for daytrading, where we use 1-2% max stops.*

## Timing your Swing Trades "How long should I expect to hold the stock for?"

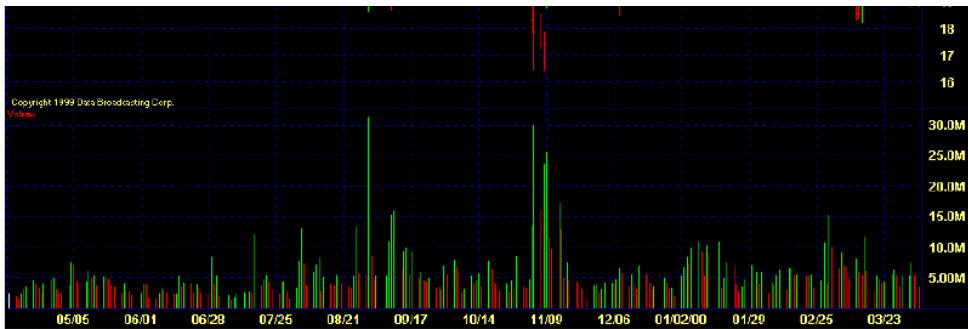
This is where technical analysis and your trading plan come into play.

- Limit the time you are in a swing trade to no more than 2-3 weeks, in general.
- Why? You don't want to tie up your valuable trading capital in a non-performing "wrong" trade. You're not a long-term investor.
- You should feel very comfortable taking a 10% plus profit anytime it presents itself. You may, for example, buy a stock one day and see it gap up 14% on the open the very next day. Even though you bought the stock thinking "I may need to hold it a few days or weeks to get a good profit out of it", be opportunistic - if you see the green, then Sell it and bank the profits.
- Let the buyers' and sellers' behavior in the stock's chart pattern tell you how long you should expect to be in the trade. Look at a 5-day and 10-day chart as well as the longer term 6 month/1-year charts.
- How much volatility is in the stock? You want to swing trade stocks that are in a steady uptrend, have bottomed and are bouncing, or are in a predictable trading range.
- Look at the chart to define your expectations of how long you want to be in the trade before selling your position.

**Example:** Let's look at the SPLS (Staples) chart below. It's a one-year chart.

- What's the overall trend? down
- What's the major support/resistance areas for the last several months? Support at 19 and resistance at 23.
- Where do you swing trade it? Buy at 19-20 1/8 and sell at 22-23.
- How long do you expect to be in the trade? Based on the chart volatility, no longer than 2 weeks.





## Timing Tips for Swing Traders:

- **DRAW THE CHART AHEAD OF TIME:** No I don't mean one of those hokey future-chart prediction websites, rather, print out the 3-month chart of your stock and draw out the support/resistance lines and the 'deadline' you will give the trade to be profitable, or to be stopped out at, in.
- Example: If you enter the trade April 16th, maybe give it til the end of the month (or meeting your profit target or stop loss). If it's still chopping around and you're +/- 1/2 point with no major movement after a couple weeks, consider closing the trade and rolling the money into a different stock pick.
- **THE MORE SHARES YOU TRADE, THE SHORTER YOUR TIME HORIZON SHOULD BE:** if you're only trading 50-100 shares of a stock and it's taking up less than 10% of your trading capital, then maybe you can sit in the trade for a month, or even two, to wait for a decent profit.
- If you're trading 200-300, or more, shares, expect to get out within 2 weeks maximum. Other opportunities are out there for this amount of trading capital you've allocated to the trade, if it's not performing, then "fire it" and buy a different stock instead.
- **DISCIPLINE IS STILL IMPORTANT IN SWING TRADING:** Don't fall into the common trap of letting "bad daytrades turn into investments/swing trades."
- Your only protection against sloppy trading is to **WRITE DOWN AND STICK TO** your stops, entry and exit points. This can be simple and brief, on a blank piece of paper. The main thing is to use it to help you trade with defined boundaries, so you don't lose money.

### Module Four

## Swing Trading Strategies

◀ PREVIOUS    NEXT ▶

- Risk Management for Swing Trades Part 1: Using Stops, Portfolio Management & Diversification

Back to  
MODULE 4

### ● Main Points:

- This is another "big picture basics" lesson that is designed to help you get started in swing trading successfully.
- Risk management in this lesson will help you figure out **how to best allocate your capital, use swing trading stops and diversify the stocks you are trading.**
- **In swing trading, we recommend that you have a handful of stocks that you trade simultaneously.** I have held anywhere from 2 to 6 different stocks, almost all small shares (50-300 shares each), for a 3-day to 2-week or so hold.
- What types of stocks to have? I'd suggest picking 1-2 from each of several different sectors (eg retailers, nets, semi's)
- **Why do we recommend this swing trading approach?**  
Simple: if you only have 1-2 stocks you're playing you will probably get impatient waiting for it to go up faster, and exit the position too soon, with a small profit.
- If you have a handful ("basket") of stocks you're in then you can sell one when it "pops up" to give you a decent profit (of 5-20%) and use the capital to buy another stock, rotating your money over ever couple of weeks into new stocks while your capital base grows.

## Managing Risk in Swing Trades: Using Stops, Portfolio Management & Diversification

### Using Stops in Swing Trades

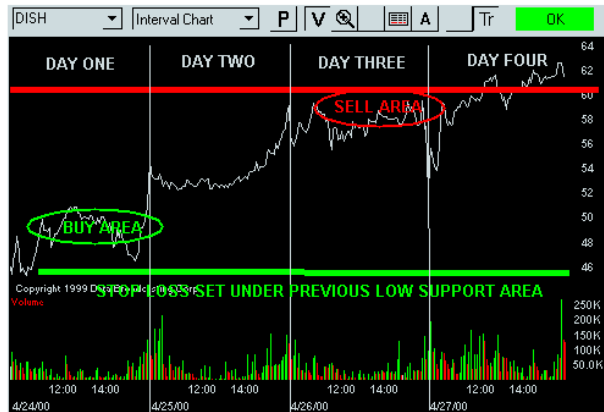


On Day One of this DISH trade you can see some initial buying in the first half of the trading day. **Where would you set your stop loss here?** No more than 5% away from the trade entry, or 45 1/2, right under the day's low.

**How do you determine a trade exit area?** Again, I always like to exit right under whole number support, especially "decade" numbers like 60 in this example. Now, DISH kept running up, and

That's fine, half the time stocks will go right back down again as well...better to book the profit and the re-buy the stock again if it pushes it's way through 60, say you might buy again at 61-62.

In hindsight it's always easy to see how a trade "should've" been managed; let's figure out how to make these decisions Before you get into a trade. Here's an activity to help you with this:



#### SWING TRADE STOP ACTIVITY:

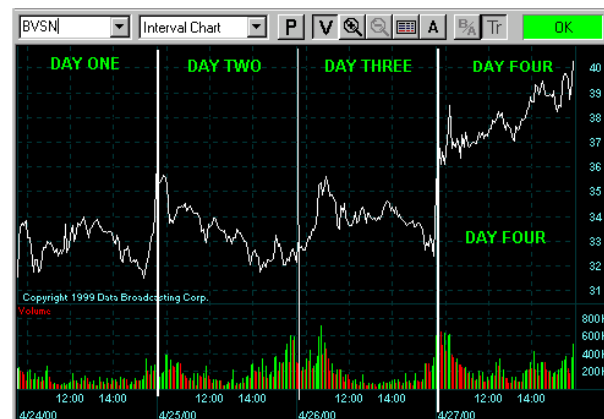
Take a look at the three chart examples shown here. Let's do an introductory Technical Analysis simulation activity to learn this critical skill.

For each 4-day chart, I want you begin by to cover up the "left 3 days" with a piece of paper. Now, move the paper slowly to the right, to simulate each trading day.

Let's say you entered the trade anywhere on Day 1. Now, where is your stop loss at (remember it must be less than 5% of the stock price). Now, how would you figure an exit strategy? Where would you book a profit, or use a trailing stop at? How would you manage your stops for each example?

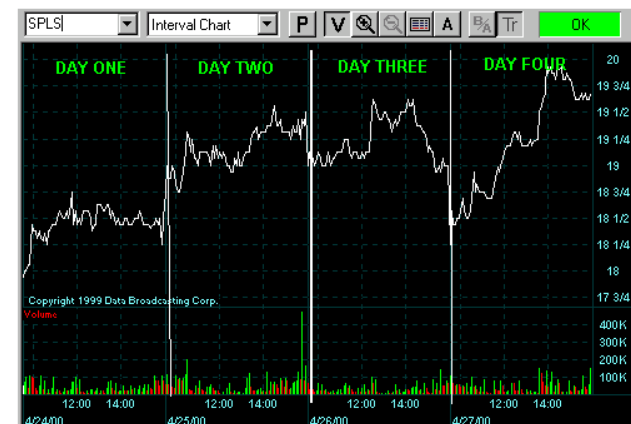
#### BVSN:

- Support is Where?
- Resistance is Where?
- Trade Entry Would Be Where?
- Trade Stop Loss is Set Where?
- Trade Exit Would be Where?



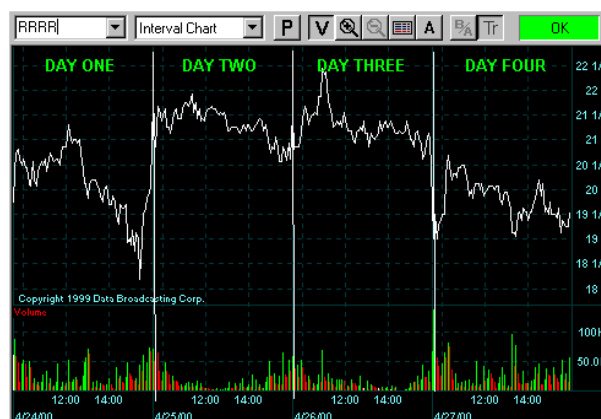
#### SPLS:

- Support is Where?
- Resistance is Where?
- Trade Entry Would Be Where?
- Trade Stop Loss is Set Where?
- Trade Exit Would be Where?



RRRR:

- Support is Where?
- Resistance is Where?
- Trade Entry Would Be Where?
- Trade Stop Loss is Set Where?
- Trade Exit Would be Where?



## Managing Your Portfolio: The DTU ROTATION METHOD

When swing trading (which I've been doing a lot more of lately), it's a good idea to keep a "rotation crop" of stocks that you're swing trading. Here's how it works:

Be sure your support/resistance levels decided on by the same time horizon you have for the trade, eg if you're planning on holding less than a month then look at 1-2 months worth of data, if you're planning on holding less than 10 days then look at 10 day support/resistance.

**1. Buy 100 shares of each of 4-6 stocks.**

**Example:**

100 RIMM @ 37

100 DCLK @ 62

100 BVSX @ 33

100 NOVX @ 19

**2. Write down major support levels (no more than 5% lower than what you paid for the stock) for each stock.**

**These are your stop loss areas (you will sell if the stock drops to these prices).**

**Example:**

RIMM Stop Loss = 34 7/8

DCLK Stop Loss = 59 3/4

BVSX Stop Loss = 29 7/8

NOVX Stop Loss = 17 7/8

**3. Write down major resistance areas and profit targets for each stock in the portfolio:**

**Example:**

RIMM resistance = 46, exit target = 44-46

DCLK resistance = 70, exit target = 68-70

BVSX resistance = 40, exit target = 38-39

NOVX resistance = 22, exit target = 21 7/8

**4. Okay, now you have a swing trading plan defined. This is critical.**

**Another tip to remember is to use trailing stops in your swing trades as well as day trades (see Module 1 for more on this)... eg if you buy at 33 and it goes up to 34 1/2, your trailing stop is at 34, which means you will sell at 34 to lock in a 1-point profit if the stock goes down to 34.**

Finally, you wait and watch. Let's say DCLK goes to 68 1/2 and you see another oversold stock starting to rebound. Well, you can sell your DCLK here since it's near a resistance level, book the profit, then go buy the other stock, "rotating your capital" into a higher-percentage trade.

Let's say that NOVX drops to 17 7/8, so you sell it, taking a minor loss. Your 12% gain on DCLK outweighs the 4% loss on NOVX, so you're still at a profitable 3:1 reward:risk ratio.

You simply keep doing this process, rotating your capital into new stocks for 2-day to 2-week swing trades, selling when the stock has hit a new high near a resistance level, and buying stock that's either bouncing or breaking out above a key resistance level. It works - try it.

## Diversifying Your Stocks by Sector

Finally, let's look at managing risk by diversifying your portfolio by sector. You shouldn't, for example, just swing trade all computer stocks, or internet stocks, or brokers.

Try spreading your picks among several different sectors so that you maximize the odds that at least one of them will do well on a given day. This is a "swing trading hedge"

For example, the stocks in the above example are all from different sectors. You might include 1 semiconductor (eg VTSS XLNX AMAT INTC), 1 telecom (T WCOM), 1 wireless (QCOM AWE), 1 retailer (WMT ROST) and one pharmaceutical (AMGN BGEN), for example.

All sectors don't move together, some days one sector will take the lead and others may be weak. In swing trading a portfolio, make sure it's diversified into different, strong sectors.